

Rate setting information

Preliminary rates for 2005

## **Rate setting principles**

There are three general principles that are used in rate setting in Canadian Workers Compensation Systems –

1. **Full funding** – this means that premiums collected annually are generally expected to cover the cost of injuries arising in the year for which the rates are set. This principle is based on the desire of industry to avoid the transfer of costs to future generations of employers.
2. **Responsibility and accountability** – Industries are aggregated into rate groups according to the similarity of their claim costs, and monitored on an annual basis. In this way, cross subsidy of employers with high claim cost performance by those with low claim cost performance is minimized
3. **Statistical reliability** – In order to ensure that rates are stable as much as possible from year to year, the data used in rate setting must be statistically credible. The number of years of historical data used to determine rates vary between rate groups depends on a combination of size of assessable payroll, and number of claims per year.

## **Rate setting process**

WCB rates comprise a number of components:

1. The full funded cost of claims from injuries expected to occur in the year – this accounts for the majority component of the rate
2. The cost of administration
3. The funding policy
4. The rate capping policy
5. Other minor elements

In order to set rates, a forecast of the full funded claim costs is performed using, as a basis, the latest three year trends of injuries and claim costs for all industries weighted on a 3-2-1 basis with 2003 year experience weighted at 3.

Industries whose injury cost performances are similar over a period of years are aggregated into statistically credible rate groups. Different rate groups, therefore, have different rates depending on their claim cost performance. Moreover, industries whose injury cost performance varies significantly from its rate group for a sustained period are moved to more appropriate rate groups.

The fact that the 2005 rates for financial institutions are at 8 cents while the rate for sawmills is \$4.05 per \$100 of assessable payroll reflects the principle of responsibility and accountability embedded in the classification and rate setting policy.

Preliminary rates for 2005 are prepared for publication and consultation in the summer in order to provide employers reasonable notice and indication on the direction of their premium rates for the following year. While these preliminary rates are reliable as indicators, they may differ when final rates are set in October should financial forecasting assumptions change materially.

The period of consultation that follows the release of preliminary rates also affords employers and industry to provide input and feedback to the WCB to correct any gross or material deviations from the underlying assumptions used in calculating their rates.

### **2005 rate impact comparison to 2004**

The injury rate and claim cost reduction trends in 2001, 2002 and 2003 continue to produce positive results for industry as the aggregate premium rate for British Columbia industries in 2005 is forecast to be 4.1% lower than in 2004.

	<b>2004 # of rate groups</b>	<b># of employers</b>	<b>2005 # of rate groups</b>	<b># of employers</b>
<b>Rates increasing</b>	50	75,220	31	74,973
<b>Rates decreasing</b>	42	86,695	62	98,446
<b>Unchanged</b>	2	8,246	1	2,083
<b>Total</b>	<u>94</u>	<u>170,161</u>	<u>94</u>	<u>175,502</u>

## **2005 rate setting financial assumptions (forecast)**

Preliminary premium rates are based on early financial assumptions which are outlined below to provide an early indication of the financial circumstances forecast for next year.

<i>\$ in millions</i>	<b>2004 rate setting</b>	<b>Rate per \$100</b>	<b>2005 rate setting</b>	<b>Rate per \$100</b>	<b>% change in dollar terms</b>	<b>% change in rate terms</b>
Full funded claim costs	\$ 777	\$ 1.407	\$ 753	\$ 1.304	-3.1%	-7.3%
Administration (rateable portion)	\$ 259	\$ 0.468	\$ 270	\$ 0.468	4.5%	0.0%
Funding policy	\$ 129	\$ 0.234	\$ 139	\$ 0.241	7.6%	3.0%
Rate capping	\$ (28)	\$ (0.050)	\$ (22)	\$ (0.038)	-20.6%	-24.0%
Net premiums required	\$ 1,137	\$ 2.059	\$ 1,140	\$ 1.975	0.2%	-4.1%
Forecasted insurable earnings	\$ 55,241		\$57,727		4.5%	
Premium rate	2.059		1.975		-4.1%	

Full funded claim costs are forecast to be 3.1% lower, reflecting improving injury and claim cost trends of the past few years.

Although it appears that 2005 administration costs are rising, they are forecast to remain at the same level of 2003 and 2004 actual administration expenditures. The forecast made in 2003 for 2004 administration costs was slightly understated.

The funding policy includes amounts to amortize the WCB's unfunded liability and to fund a reserve to buffer the effects of market volatility resulting from investments. The rate group unfunded liability at the end of 2003 was 5% of total liabilities meaning a 95% funding level. At the end of 2004, the rate group unfunded liability is forecast to be 3% of total liabilities. The target optimum rate group funding level of the WCB is 105%. The forecasted 2004 funding level represents an 8% gap from the target funding level and this gap has been priced into the rate so that it is closed over the next five years.

The rate capping policy generally caps annual rate increases and decreases for employers' base rates at a maximum of 20% per year. This policy is intended to avoid catastrophic rate rises for employers within reasonable limits for the WCB, taking into account the imprecise nature of estimates and forecasts of future costs and financial performance.

**Top ten rate groups –**  
**2005 Forecasted premium revenue changes**

Rate group	Predominant industries in rate group	2004 premium revenue based on 2005 payroll	2005 premium revenue based on 2005 payroll	2005 \$ change in premium revenue	2005 rate per \$100	% change
		(\$000's)	(\$000's)	(\$000's)		
DR	Integrated Logging, Ground Skidding, Mechanized & Manual Tree Falling	\$ 74,122	\$ 81,686	\$ 7,564	\$ 9.460	10.2%
DI	General Trucking	\$ 50,099	\$ 51,827	\$ 1,728	\$ 6.300	3.4%
CZ	Sawmills	\$ 47,177	\$ 43,507	\$ (3,670)	\$ 4.066	-7.8%
AN	Hospitals (acute care)	\$ 53,307	\$ 42,646	\$ (10,661)	\$ 1.640	-20.0%
BD	Building Construction	\$ 32,874	\$ 35,490	\$ 2,616	\$ 7.189	8.0%
AO	Long Term Care Facilities	\$ 37,464	\$ 29,971	\$ (7,493)	\$ 2.960	-20.0%
DG	House Construction	\$ 32,022	\$ 28,982	\$ (3,040)	\$ 5.910	-9.5%
DO	Local Government	\$ 27,102	\$ 26,270	\$ (832)	\$ 1.578	-3.1%
DK	General Retail, Auto Parts Supply, Resort Timeshares	\$ 23,136	\$ 21,822	\$ (1,314)	\$ 0.830	-5.7%
CX	Carpentry Shop, Glass Shop Install & Replace, Marine Pleasure Craft Mfg.	\$ 18,563	\$ 20,755	\$ 2,192	\$ 3.977	11.8%
		<u>\$395,866</u>	<u>\$382,955</u>	<u>\$ (12,911)</u>		<u>-3.3%</u>

**Largest % reductions –**  
**2005 Forecasted premium revenue decreases**

Rate group	Predominant industries in rate group	2004 premium revenue based on 2005 payroll	2005 premium revenue based on 2005 payroll	2005 \$ change in premium revenue	2005 rate per \$100	% change
		(\$000's)	(\$000's)	(\$000's)		
AN	Hospitals (acute care)	\$ 53,307.1	\$ 42,645.7	\$ (10,661.4)	\$ 1.640	-20.0%
AO	Long Term Care Facilities	\$ 37,463.7	\$ 29,970.9	\$ (7,492.7)	\$ 2.960	-20.0%
DV	Public School Districts	\$ 24,717.4	\$ 19,773.9	\$ (4,943.5)	\$ 0.640	-20.0%
AJ	Auto Dealership (sales & service)	\$ 11,569.7	\$ 9,255.7	\$ (2,313.9)	\$ 1.240	-20.0%
AE	Doctors, Dentists, Optometrists	\$ 4,150.7	\$ 3,276.9	\$ (873.8)	\$ 0.300	-21.1%
AG	Universities	\$ 3,658.5	\$ 2,926.8	\$ (731.7)	\$ 0.280	-20.0%
AW	Poultry Processing, Auto & Aircraft Assembly	\$ 2,429.6	\$ 1,943.7	\$ (485.9)	\$ 2.200	-20.0%
AA	Financial Institutions	\$ 1,902.8	\$ 1,522.2	\$ (380.6)	\$ 0.080	-20.0%
		<u>\$139,199.4</u>	<u>\$111,315.9</u>	<u>\$ (27,883.6)</u>		<u>-20.0%</u>

**Largest % increases –**  
**2005 Forecasted premium revenue increases**

Rate group	Predominant industries in rate group	2004 premium revenue based on 2005 payroll	2005 premium revenue based on 2005 payroll	2005 \$ change in premium revenue	2005 rate per \$100	% change
		(\$000's)	(\$000's)	(\$000's)		
DZ	Telephone Svcs., Small Appliance Repair	\$ 3,200	\$ 3,843	\$ 644	\$ 0.418	20.1%
BP	Electronic Product Mfg., Watch Repairs	\$ 2,787	\$ 3,359	\$ 572	\$ 0.470	20.5%
AB	Insurance Services, Actuarial Services	\$ 1,574	\$ 1,905	\$ 331	\$ 0.230	21.1%
AD	Consulting Engineering	\$ 1,269	\$ 1,534	\$ 264	\$ 0.290	20.8%
DT	Accounting, TV/Radio Broadcasting, Employers' Associations	\$ 1,246	\$ 1,526	\$ 280	\$ 0.180	22.4%
		<u>\$10,076</u>	<u>\$12,167</u>	<u>\$2,091</u>		<u>20.8%</u>

**Highest and Lowest 2005 Forecasted premium rates**

Rate group	Predominant industries in rate group	2005 premium rate per \$100	2005 premium revenue based on 2005 payroll
			(\$000's)
CS	Shake or Shingle Mills, Concrete Reinforcing	\$14.88	\$11,995
AA	Financial Institutions	\$ 0.08	\$ 1,522